Annual Report 1975

RIO ALGOM LIMITED

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Sir Val Duncan, OBE
1913 - 1975

With the sudden death on Friday, December 19, 1975 of Sir Val Duncan, OBE, chairman and chief executive of The Rio Tinto-Zinc Corporation Limited, the world lost an outstanding citizen, industrial statesman and humanitarian.

For RTZ's many affiliates, of which Rio Algom is one, the loss is more personal. Under Sir Val's leadership The Rio Tinto Company, which he joined in 1948, developed from a relatively obscure copper mine in Spain into a highly diversified group of natural resource development companies which now operate on every continent.

In nurturing the growth of these companies, Sir Val travelled many thousands of miles each year so that his presence was a familiar one to employees of practically every nationality.

Sir Val — he received his knighthood in 1968 for export achievement and services to British industry — was born July 18, 1913 and was educated at Harrow and Brasenose College, Oxford, where he obtained an M.A. in Law and was called to the English Bar in 1938.

He served in the British Army from 1939-46, mainly on the staffs of Generals Montgomery, Eisenhower and Alexander. He was mentioned in despatches twice and was awarded the OBE in 1944.

Sir Val devoted time outside the requirements of the RTZ Group companies to many public-spirited activities. Despite all of these demands on him, his enthusiasm and energy never flagged. In his death he is sorely missed. However, it is a measure of the stoutness of the corporate tree he planted that it not only survives but continues to flourish as a living tribute to him.

Rio Algom Limited

(formerly Rio Algom Mines Limited)

120 Adelaide Street West
Toronto, Canada
M5H 1W5

addition of CPE. Moodie to board - Apr 30/76

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Directors

G. R. Albino
President and Chief Operating Officer of the Company, Toronto

W. A. Arbuckle
Chairman, Celanese Canada Limited, Montreal

*†R. D. Armstrong
Chairman and Chief Executive Officer of the Company, Toronto

†J. Ian Crookston
Chairman, Nesbitt, Thomson and Company, Limited, Investment Dealers, Toronto

J. G. Edison, QC
Counsel to Aird, Zimmerman and Berlis, Barristers & Solicitors, Toronto

*Sam Harris
Senior Partner, Fried, Frank, Harris, Shriver & Jacobson, Attorneys-at-Law, New York, U.S.A.

L. A. Lapointe, QC
Chairman, Miron Company Ltd., Manufacturers of Building Materials, Montreal

*†B. R. MacKenzie, QC
Counsel to Fasken & Calvin, Barristers & Solicitors, Toronto

F. A. Petito
Chairman and Managing Director, Morgan Stanley & Co., Incorporated, Investment Bankers, New York, U.S.A.

*†J. Herbert Smith
Consulting Engineer, Toronto

Sir Mark Turner
Chairman and Chief Executive, The Rio Tinto-Zinc Corporation Limited (1), London, England

R. W. Wright, CBE
Director, The Rio Tinto-Zinc Corporation Limited (1), London, England

*Members of the Executive Committee

†Members of the Audit Committee

(1) The parent of an international group of mining and industrial companies.

Officers

EXECUTIVE

R. D. Armstrong
Chairman and Chief Executive Officer

G. R. Albino
President and Chief Operating Officer

CORPORATE

A. F. Lowell
Vice-President, Minerals Marketing

H. A. Pakrul
Vice-President, Controller

A. C. Turner
Vice-President, Secretary

J. Van Netten
Vice-President, Treasurer

J. G. Littlejohn
General Counsel

MINING

E. W. Cheeseman
Vice-President, Underground Mining Operations

P. A. Carloss
Vice-President, Elliot Lake Operations

P. M. Kavanagh
Vice-President, Exploration

J. E. Moyle
Vice-President, Mining Engineering

J. A. Sadler
Vice-President, Special Projects

ATLAS STEELS

A. V. Orr
Vice-President, General Manager

H. L. Brien
Vice-President, Engineering

C. E. Ohlson
Vice-President, Marketing

F. S. Robinson
Vice-President, Purchasing and Traffic

D. V. Roland
Vice-President, Manufacturing

G. L. Sandler
Vice-President, Finance

W. V. Vincent
Vice-President, Sales

ATLAS ALLOYS

W. D. Dobbin
Vice-President, General Manager

K. Collyer
Vice-President, Canadian Operations

J. B. Dunn
Vice-President, Controller

LORNEX MINING CORPORATION LTD.

C. W. Reno
Vice-President, General Manager

Annual and General Meeting

The Company will hold an Annual and General Meeting on Friday, April 30, 1976 at 10:00 a.m. (Toronto Time), in the Civic Ballroom, Four Seasons Sheraton Hotel, 123 Queen Street West, Toronto, Ontario, Canada.

Highlights of 1975 Consolidated Operations

($000's omitted)		1975		1974
Sales	$	**367,382**	$	390,571
Net earnings	$	**30,032**	$	43,824
Per share of common stock	$	**2.28**	$	3.52
Dividends paid on common stock	$	**13,490**	$	12,261
Per share of common stock	$	**1.00**	$	1.00
Working capital, year end	$	**215,766**	$	155,024
Ratio of current assets to current liabilities		**3.4 to 1**		2.6 to 1
Common shareholders' equity	$	**292,229**	$	250,784
Total common shares outstanding at December 31		**13,489,522**		12,261,139
Equity per share of common stock outstanding	$	**21.66**	$	20.45
Production				
Uranium oxide (Pounds)		**5,806,355**		6,193,625
Copper in concentrate (Pounds)		**116,811,000**		144,156,000
Steel (Tons)		**160,929**		189,316
Number of employees at December 31		**5,144**		5,362

Contents

Directors' Report

To the Shareholders:

Consolidated net earnings for 1975 were $30.0 million as compared to $43.8 million in 1974. Net earnings per common share were $2.28 in 1975 and $3.52 in 1974. During the year dividends of $688,000 on preference shares and $13,490,000 on common shares were paid. Dividends on common shares were paid at the same rate of $1.00 per share as in 1974.

Consolidated revenue from operations declined from $390.6 million in 1974 to $367.4 million in 1975. In comparison to 1974, net earnings declined progressively in each of the first three quarters of 1975 but for the fourth quarter they were substantially in excess of those for the same period in 1974 and were the highest of any quarterly earnings in 1975. Revenue from operations in the fourth quarter was also slightly higher in 1975 than in the comparable quarter in 1974.

Of the net earnings decrease of $13.8 million in 1975, $12.5 million represents Rio Algom's interest in the $22 million decline in the earnings of Lornex Mining Corporation Ltd. The remaining decrease of $1.3 million represents the net effect of a reduction of about 50% in earnings from specialty and stainless steels operations together with increases in exploration expenditures and selling, general and administration expenses, which were partially offset by a major increase in earnings from underground mining operations and lower taxes on a reduced level of pre-tax earnings. The increase in earnings from underground mining operations was attributable in part to two spot sales of uranium oxide of one million pounds each entered into during 1975 at then prevailing market prices.

Lornex operated virtually on a break even basis for the year 1975. Its earnings before income and mining taxes and government royalty declined to $8.2 million in 1975 from $39.2 million in 1974 after providing for interest on income debentures, including that due to Rio Algom, in the amounts of $5.4 million and $4.9 million respectively, which amounts are not deductible for income tax purposes. Lornex' total provision for taxes and government royalty amounted to $7.5 million in 1975 and $16.5 million in 1974.

As a result of severely depressed market conditions, copper prices remained at a very low level thoughout the year, production was curtailed and deliveries to Lornex' Japanese customers were reduced. Gross copper prices applicable to Lornex production averaged 55 cents per payable pound for the year compared with 72 cents in 1974. Unit operating costs increased significantly during the year due to wage rate increases and the continuing rapid escalation of the cost of operating materials and supplies.

Production at Lornex was curtailed by reducing the daily operating rate and shutting down the operation for three weeks in the month of August for holidays. As a result the total tonnage of ore milled was reduced by just over 20% and copper production was reduced by 20.9 million pounds to 107.2 million payable pounds of copper in concentrate.

The original sales agreement between Lornex and a Japanese consortium provided for the sale of the entire production of copper concentrates from the two existing Lornex mill lines until the end of 1984. Amendments to this agreement made in October, 1975 provide for the delivery by Lornex of fixed amounts of copper concentrates in each of the years 1976 through 1979 and permit Lornex to sell copper concentrates elsewhere in each of those years. Temporary upward adjustments were also agreed upon in the refining charge to be deducted by the Japanese buyers from the selling price applicable to shipments made from May 1, 1975 through March 31, 1977. The parties also agreed to negotiate in good faith during January, 1977 such terms and conditions as may be appropriate after March 31, 1977 when the temporary adjustments expire. These new arrangements enabled Lornex to ship 27.4 million payable pounds of copper to a United States company and 90.5 million payable pounds to the Japanese buyers. The total shipments of 117.9 million payable pounds in 1975 exceeded production by 10.7 million payable pounds and accumulated inventories were reduced by this amount. Lornex has also contracted to deliver specific quantities of copper in concentrate to the same United States company in each of the years 1976 through 1979 and it is expected that these arrangements will permit an increase in annual production in 1976 with a further increase in 1977.

By the end of 1974 the Lornex bank loans of $60 million had been repaid in full and the loan from the Japanese lenders in the form of 8¾% Notes had been reduced from the original amount of $26.8 million to $22.7 million. During 1975 principal repayments

totalling \$11.5 million were made on these Notes and additional payments of \$9.5 million have been made in 1976 to date reducing the amount payable to \$1.7 million. Payment of accrued interest and repayment of principal of the Lornex 8½% Series A Income Debentures cannot commence until the 8¾% Notes held by the Japanese lenders are fully retired; at December 31, 1975 the total amount of principal and accrued interest outstanding was \$66.7 million of which \$54.9 million was owed to Rio Algom and \$11.8 million was owed by Lornex to others.

Late in 1975 Rio Algom made a cash offer of \$8.00 per share for all of the common shares of Lornex that it did not then hold. The offer was not conditional on the tendering of any minimum number of shares of Lornex and, under applicable laws, Rio Algom had no rights of compulsory acquisition under the offer. On expiration of the offer on December 31, 1975 the Company's ownership of Lornex had increased to 66.5% from the 59.8% position held at the time the offer was made.

During 1975 sales and earnings of the Atlas Steels specialty and stainless manufacturing operation declined compared to 1974. The year started with reasonable order backlogs for both the Welland and Tracy plants but during 1975 the general level of industrial activity declined, inventory liquidation by customers occurred and total order backlog declined sharply. Several of the specialty steel and low alloy bar product lines produced at the Welland plant had reasonable levels of activity during the year but sales of stainless flat rolled products were especially weak. All categories of operating costs escalated sharply and although the effect was modified to some extent by the continuing effects of cost control and profit improvement programs the combination of decrease in volume and inability to recover cost increases by selling price changes caused a substantial deterioration in profit margins.

There are no indications of alleviation of the cost pressures to which the specialty and stainless steel operation is subjected and there are few signs of an improvement in market conditions that will permit recovery of these increased costs. The Tracy plant is more capital intensive than the Welland plant and as a producer of stainless flat rolled products exclusively it is strongly oriented towards automotive related products and its market opportunities are narrower. As a consequence, the currently depressed market conditions have had a particularly heavy adverse impact on the operating results of this plant. Unless business conditions improve beyond current expectations it is likely that there will be a deterioration in the earnings of the specialty and stainless steel operation in 1976.

In 1975 the Atlas Alloys metal service centre operation, which distributes steel products manufactured by Atlas and metal products purchased from others for resale, also suffered from liquidation of inventories that had been accumulated by its customers during 1974. Conditions were highly competitive in 1975, world-wide sales were slightly less and pre-tax earnings were lower than in the previous year.

Revenue and earnings from uranium operations in 1975 increased substantially over 1974 at both the New Quirke mine at Elliot Lake and the Lisbon mine in Utah. During the year three contracts for near term deliveries were entered into primarily to accommodate established purchasers and/or to balance uranium stocks on hand; these included the two spot sales of one million pounds each that were referred to earlier. At year end the Company held firm contracts for the delivery of 90,302,000 pounds of uranium oxide from its Elliot Lake operations. Of this total, 1,901,000 pounds will be delivered at fixed prices in the years 1976 and 1977. Some 31% or 28,021,000 pounds will be delivered over the period 1976 through 1983 under contracts made in 1966 and 1968. Deliveries under these contracts will be made at base prices that are subject to escalation provisions. Deliveries under the more recent major contracts concluded in 1974 comprising 60,380,000 pounds of uranium oxide will be made over the period 1979 through 1992. The prices for deliveries under these contracts are determined on an annual basis at the higher of a minimum price and a settlement price that takes into account free world market conditions for uranium at the time of delivery.

With the exception of contracts for 3,380,000 pounds, governmental approvals for the export contracts held by the Company have been obtained. The contracts concluded in 1974 are subject to export policy guidelines designed to ensure adequate uranium for domestic needs, and all export contracts have been and are subject to annual export permits. At this time the Company's current export deliveries are being allowed on a provisional basis pending conclusion of on-going negotiations between Canada and a number of countries on new bilateral safeguards agreements. To

our knowledge no such agreements have yet been concluded with any of the countries which are major purchasers of Canadian uranium. In addition to the contracts for delivery from its Elliot Lake operations, a firm contract was held as at December 31, 1975 for the delivery of 4,400,000 pounds of uranium oxide from its Lisbon mine in Utah.

The first phase of the major long-term program that is required to expand uranium production to fulfil existing and anticipated delivery requirements was initiated in May, 1975. As announced at that time, it entails an increase in the capacity of the Quirke mill from 4,500 to 7,000 tons of ore per day and the expansion of the mine workings to provide the increased tonnage of ore required for the expanded mill. This phase is scheduled for completion in 1978 at a capital cost currently estimated at $76 million excluding interest to be capitalized during construction. Extensive planning and engineering work is in progress regarding the second phase of the program which comprises the redevelopment of mines now idle and the further expansion of milling capacity by the reactivation of idle mills and/or construction of new milling facilities.

Rio Algom's exploration activities were expanded further in 1975 and resulted in expenditures of $6,198,000 compared with $5,143,000 in 1974 and $3,125,000 the previous year. These activities are more fully described in the Review of Operations section of this Report.

In May, 1975 the holders of Series A Debentures, which had been issued in April, 1963 and of which $26,009,000 was outstanding at December 31, 1974, approved amendments to certain covenants and provisions regarding these Debentures, the most important being the modification of the restrictions regarding issuance of additional debt and the undertaking of obligations related to the types of financing normal to the Company's business. In consideration for approval of the amendments by the Debentureholders the interest rate on the Series A Sinking Fund Debentures was increased from 5¾% to 6¾% and the annual sinking fund payments were accelerated.

In June, 1975 the Company made an offering to holders of its common shares, other than shareholders in the United States of America, of rights to subscribe for one additional common share for each ten common shares held at a price of $21.00 per share; this resulted in the issuance of 1,226,113 common shares and made a net amount of $25.3 million available to the Company. Concurrently, 11½% Series B Sinking Fund Debentures, maturing July 15, 1995, were issued in the principal amount of $50 million which yielded net proceeds of $48.9 million.

Rio Algom and its subsidiaries are currently engaged in two principal lines of business: mining which consists of the exploration for and mining of ores and minerals, notably uranium and copper, and steel operations which consist of the production and marketing by Atlas Steels of specialty and stainless steel mill products and the distribution through the Atlas Alloys metal service centre operation of such products and other specialty metals produced by others. Each of these is a major well established operation that is cost competitive on a world scale and can be expanded when economic and other circumstances permit. In addition, each component is an established technological and financial base from which additional projects of a related nature can be undertaken. Earnings will continue to be affected by the Company's sensitivity to the volatile world copper markets and to a lesser extent by the effect of market conditions on specialty and stainless steel operations. Uranium mining, however, continues to be Rio Algom's most important component and the Company's contractual, production and ore reserve positions are such that in the longer term these operations are expected to generate expanding and relatively non-cyclical earnings.

Capital expenditures of $29.5 million in 1975 were slightly more than double those of the previous year. It is expected that there will be a further major increase in capital expenditures in 1976 related mainly to continuation of the expansion of production facilities at Elliot Lake and the new steel melting facility at Welland. In addition, the Company's investment in Rossing Uranium Limited was increased by $3.3 million during 1975.

The most important single project that will be carried out over the next several years is the re-development of mines now idle and the further expansion of milling capacity by the reactivation and/or construction of new milling facilities at Elliot Lake. This will be the largest single project yet undertaken by Rio Algom and its successful completion is fundamental to the Company's future growth and prosperity. The means by which

these reserves can best be developed for production is currently under detailed investigation. A fundamental characteristic of the entire Elliot Lake expansion program is that it will provide for the recovery of uranium oxide from ore of a significantly lower grade than has been mined since mining of the New Quirke orebody began in 1968.

Inflation has a particularly destructive effect on the abilities of business organizations to renew their facilities and replace their resources when major amounts of capital are required for these purposes. Yet major productive capital expenditures are perhaps the most effective single means of curtailing inflation. However, the cash generated internally from depreciation and amortization charges based on historical cost is not sufficient to cover the cost of replacing capital assets at current inflated costs. Thus business organizations must rely on net earnings or capital market borrowings to make up this difference. The paradox is that governments pre-empt more than their just share of gross earnings since these are overstated as a result of historical cost amortization.

On the other hand borrowing in capital markets, to make up the shortfall of funds for replacement of facilities and to provide for expansion of production facilities, is punitive since interest rates in Canada have become historically high because of the government's continuous entry into capital markets to finance current budgetary deficits. As well, the governmental monetary authorities support high short-term interest rates to encourage capital inflows in order to finance the large and continuing deficits in Canada's current account balance. These conditions that suppress earnings in real money terms and increase the difficulty of obtaining additional capital funds impede the activities of business organizations prepared to undertake investment in the productive capital projects that would increase employment and help to curtail inflation.

Prices, profits and wages in Canada are now subject to regulatory controls established under the Federal Government's Anti-Inflation Act that became effective as of October 14, 1975. The implications of these controls on the various operations of the Company have not as yet been fully assessed. Further clarification will be required before the impact on the Company's operations can be determined.

The Canadian Government has concluded that steps had to be taken to arrest the inflationary spiral that has developed in Canada recently and the Company will cooperate fully to meet the objectives set forth in the Federal Government's policy statement on inflation. However, the Federal Government must rely not only on restraints placed on the private sector; if the controls are to be effective, governments at all levels must curb their own spending and adopt monetary and fiscal policies which are consistent with the Anti-Inflation program.

At a meeting of the Company's Board of Directors on April 25, 1975 Mr. Robert D. Armstrong was elected Chairman and Chief Executive Officer and Mr. George R. Albino was elected President and Chief Operating Officer. Mr. Armstrong had been President and Chief Executive Officer and Mr. Albino had been Executive Vice-President and Chief Operating Officer. Sir Val Duncan, who had been a director and non-executive Chairman of the Company for a number of years, remained as a Director.

As referred to elsewhere in this report, Sir Val Duncan died suddenly on December 19, 1975 at the age of 62. The Directors of Rio Algom desire to associate themselves fully with the tribute to Sir Val expressed and to record here their own individual gratitude for the privilege of having been associated with him.

At the Annual and General Meeting on April 30, 1976 you will be asked to authorize an increase in the Board of Directors from thirteen members to fifteen. It is intended that these two vacancies will be filled by the election of Mr. Gordon Gray, President of A. E. LePage Limited, and Mr. William Moodie, President of Canadian Pacific Investments Limited. It is also intended that the vacancy created by Sir Val Duncan's death will be filled by the election of Mr. Peter H. Dean, a director of The Rio Tinto-Zinc Corporation Limited.

Although earnings declined for the second consecutive year 1975 was successful in the sense that improvements were achieved in all aspects of the operations that are within the Company's control. The Directors wish to record their appreciation to the management and employees of Rio Algom and associated companies whose loyal and diligent efforts made this possible.

R. D. ARMSTRONG,
Chairman and Chief
Executive Officer

G. R. ALBINO,
President and Chief
Operating Officer

Toronto, Canada
February 27, 1976

Review of Operations

MINING

Earnings from the Company's mining operations before providing for income and mining taxes and earnings attributable to minority interests were $49,539,000 in 1975 compared to $69,693,000 in 1974. Total net revenue from operations was $148,794,000 compared to $164,818,000 last year.

Drillers at Rio Algom's New Quirke uranium mine at Elliot Lake prepare ore zone to receive blasting powder. After blasting, the ore is ground and then goes through a milling-chemical process that extracts the end product, uranium oxide concentrate, often referred to as yellow cake.

URANIUM

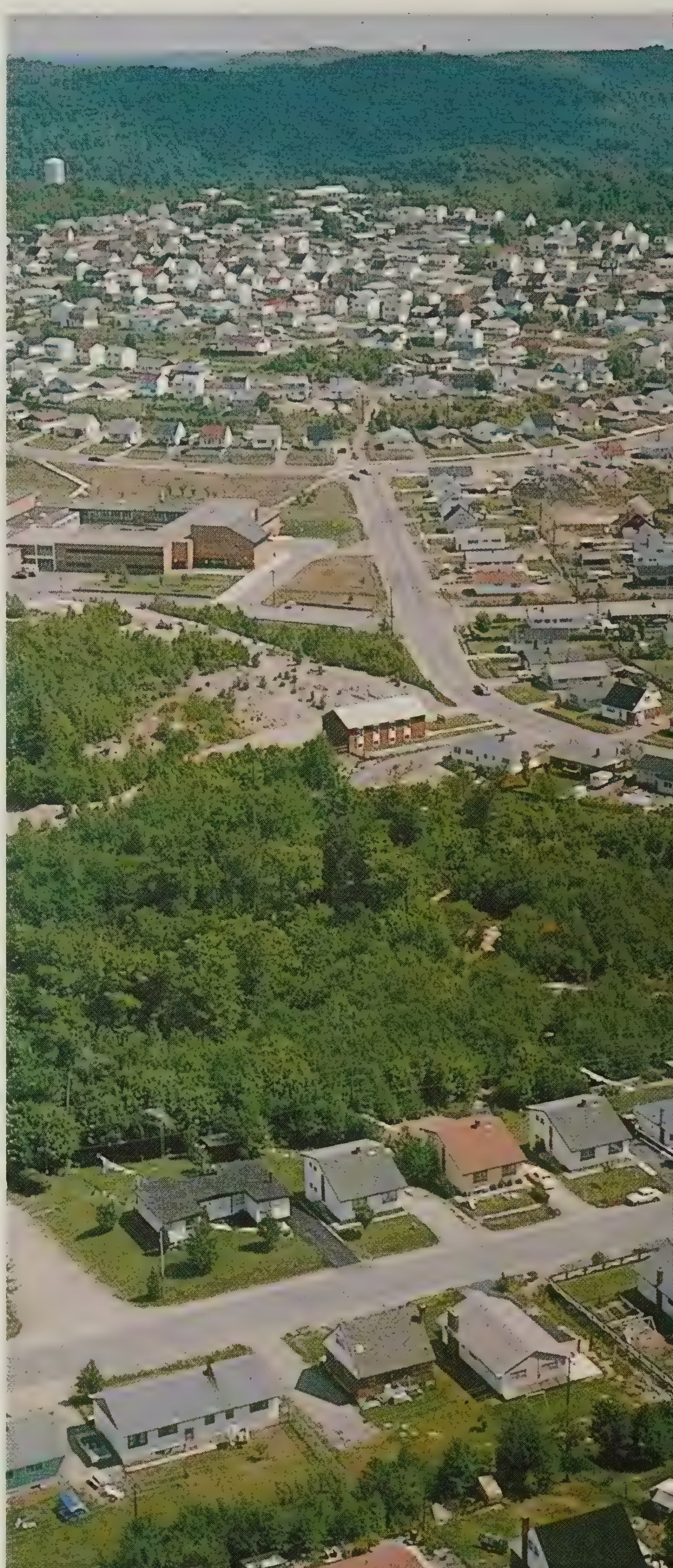
Comparative milling, metallurgical and production data from uranium operations for the years 1975 and 1974 are as follows:

	Total		Elliot Lake		Lisbon	
	1975	*1974*	1975	*1974*	1975	*1974*
Tons of ore milled (thousands)	1,719	*1,679*	1,466	*1,446*	253	*233*
Average tons milled per day	–	–	4,350	*4,240*	702	*652*
Average recovered grade per ton (lbs)	–	–	3.1	*3.4*	4.6	*5.4*
Average mill recovery	–	–	95.1%	*95.3%*	92.0%	*91.9%*
Pounds of uranium oxide produced (thousands)	5,806	*6,194*	4,639	*4,931*	1,167	*1,263*
Pounds of uranium oxide delivered (thousands)	6,792	*6,254*	5,592	*5,057*	1,200	*1,197*

Elliot Lake

During the year all production at Elliot Lake was from the New Quirke mine and the Quirke mill. The tonnage of ore milled at the Elliot Lake uranium operations in both 1975 and 1974 was lower than design capacity due to a shortage of experienced miners. Unit costs increased significantly during the year because of increases in wage rates, continued rapid escalation in the cost of operating materials and supplies and a decline in grade. A major portion of the increased costs could not be offset by improved operating efficiencies and the cost savings that were achieved through continuing cost control programs.

Net capital expenditures of $9,559,000 in 1975 were mainly for the expansion of production facilities. Excavation of the decline which began in 1974 to provide access to the orebody below the eighth working level was completed and the conveyor haulage system and primary crusher are being installed. It is expected that this work will be completed on schedule in June, 1976, at which time development work will be undertaken to prepare this area for mining. The major project which was initiated in 1975 to increase the capacity of the Quirke mill from 4,500 to 7,000 tons of ore per day, is on schedule and it is expected that it will be completed in 1978. A major housing program was initiated in 1975 in order to provide suitable living accommodation in Elliot Lake for the additional employees needed to operate the expanded production facilities. The first phase comprises a total of 150 units, to be completed in mid-1976, consisting of an 80 unit apartment building and 70 semi-detached and detached housing units. The first units were occupied at the end of the year. Late in the year an additional 78 existing dwelling units consisting of apartments and townhouses were acquired. In 1976 it is planned to start construction of an apartment building and modular type housing units which will provide an additional 143 housings units. The major long-term programs for further expansion of uranium production are referred to in the Directors' Report.



Aerial view of Elliot Lake. The town's population of just under 10,000 will increase to some 25,000 by the early 1980's because of expansion of uranium mining operations by Rio Algom and another area producer. The well-planned community offers virtually all the amenities usually associated with bigger city living.

Finishing touches are put to one of the hundreds of housing units Rio Algom is building at Elliot Lake to meet the needs of the planned large-scale expansion of its work force.

Little league baseball is just one of the recreations available at Elliot Lake. During the winter, these youngsters play hockey and ski. The Elliot Lake beach is within walking distance of most residences. And, with a myriad of lakes and bush nearby, the area is an outdoorsman's paradise, and includes a golf course.

Lisbon Mine

The increase in milling rate from 652 in 1974 to 702 tons of ore per day in 1975 resulted from the expansion of facilities that was completed in 1974. This increase in production was achieved despite the manpower shortages which were experienced. The mill head grade of ore continued to be lower than originally anticipated.

The cost of materials and supplies, particularly for energy and mill reagents, continued to escalate. The effect of these increases in costs was modified but not offset by the savings achieved as a result of the increased rate of production and continued improvements in operating efficiencies.

Since June, 1972 operations have been conducted under a provisional source materials licence issued by the United States Atomic Energy Commission. An application for a permanent source materials licence is still pending before the United States Nuclear Regulatory Commission, an agency of the United States Government established in October, 1974 to take over certain of the functions formerly exercised by the Atomic Energy Commission.

The Lisbon uranium mine near Moab, in south-east Utah.

COPPER

Comparative milling, metallurgical and production data from copper operations in 1975 and 1974 are as follows:

	Total		Lornex		Poirier	
	1975	*1974*	1975(1)	*1974*	1975(2)	*1974*
Tons of ore milled (thousands)	13,114	*16,882*	12,893	*16,445*	221	*437*
Average tons milled per operating day	–	–	38,259	*45,056*	1,611	*1,252*
Average mill head grade – copper	–	–	0.495%	*0.457 %*	2.4%	*2.1%*
– molybdenum	–	–	0.016%	*0.016 %*	–	–
Average mill recovery – copper	–	–	87.1%	*88.1 %*	95.0%	*94.3%*
– molybdenum	–	–	74.3%	*75.8 %*	–	–
Pounds of payable copper in concentrate produced (thousands)	116,811	*144,156*	107,160	*128,064*	9,651	*16,092*
Pounds of payable molybdenum in concentrate produced (thousands)	3,084	*4,038*	3,084	*4,038*	–	–

(1) The Lornex mine and mill operations were closed for three weeks during August, 1975.

(2) The Poirier mine and mill operations were permanently closed on June 27, 1975.

Lornex

The results of operations and the financial position of the Lornex copper-molybdenum mine in British Columbia, which was 66.5% owned by Rio Algom at year end, are included with those of Rio Algom on a fully consolidated basis. The comparative operating results and the financial position of Lornex Mining Corporation Ltd. as an entity are summarized on next page.

The results of operations, decline in production, reduction of long term debt and the changes in arrangements for the sale of copper in concentrate are discussed in the Directors' Report.

Net capital expenditures in 1975 were $2,794,000. These amounts were principally for one additional 200 ton haulage truck for mining operations, tailings system revisions, employee housing and normal equipment replacements. Total capital expenditures required in the five years 1976 through 1980 are currently estimated to be approximately $46 million in 1975 dollars, of which $19.5 million has been approved for expenditure; of this amount it is expected that approximately $7 million will be expended in 1976. These capital expenditures are required for normal replacement of open pit equipment, additional open pit equipment and other facilities required to achieve planned production

Shovel operator's eye view of 16 tons of ore being dumped into waiting 200-ton capacity truck at the Lornex copper mine in British Columbia's Highland Valley.

Lornex mill's huge grinding circuit where ore is ground to a fine pulp preparatory to extraction of copper and molybdenum concentrates.

levels, construction of tailings dams, additional housing and for other expenditures which are expected to be made relating to the improvement of operating efficiency and reliability.

The ore reserve program that was completed in 1974 in conjunction with a firm of independent consulting geologists resulted in the delineation of reserves substantially in excess of those established as of the date of commencement of development. The reserves, previously reported and reduced by ore subsequently extracted, amount to 419 million tons with an average grade of 0.409% copper and 0.014% molybdenum as of December 31, 1975. No additional work was carried out during 1975 for the specific purpose of reserve determination. As previously stated, the possibility that further ore reserves may be delineated by exploratory work that will be carried out in the normal course of mine operations is not precluded.

Results of Operations ($000's):

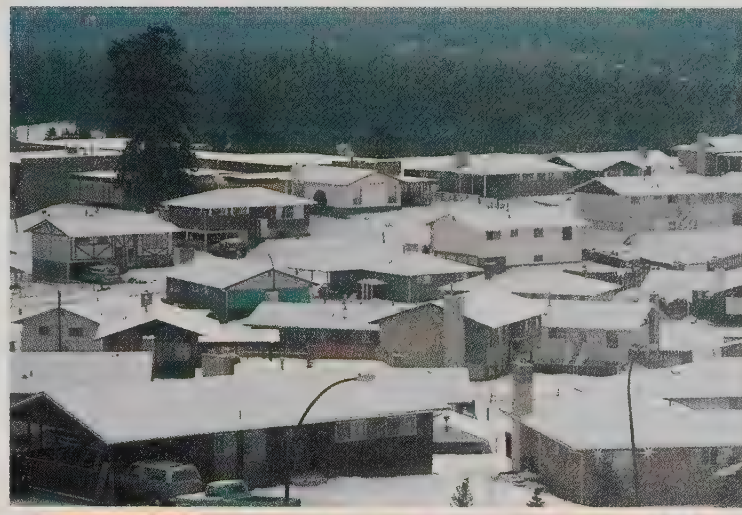
	1975	*1974*
Net revenue from production	$ 51,043	*$ 85,421*
Operating expenses	30,818	*34,589*
Amortization and depreciation	5,917	*7,029*
	36,735	*41,618*
Earnings before interest and taxes	14,308	*43,803*
Interest costs (net of investment and other income)	6,146	*4,612*
Earnings before taxes	8,162	*39,191*
Income and mining taxes and government royalty	7,536	*16,510*
Net earnings for year	$ 626	*$ 22,681*
Minority shareholders' interest in above earnings	$ 210	*$ 9,766*

Summary of Financial Position ($000's):

	1975	*1974*
Cash and short term deposits	$ 10,141	*$ 6,515*
Receivables and inventories	40,505	*37,319*
Current assets	50,646	*43,834*
Current liabilities	26,604	*17,778*
Working capital	24,042	*26,056*
Fixed and other assets (net)	128,538	*131,660*
Long term debt	(66,952)	*(78,363)*
Deferred income and mining taxes	(20,390)	*(14,815)*
Net assets	$ 65,238	*$ 64,538*
Minority shareholders' interests in net assets	$ 21,855	*$ 27,790*

Mines de Poirier

The economically recoverable ore reserves of the Poirier mine were mined out and the mine was permanently closed on June 27, 1975. Arrangements are being made for the orderly sale of properties, plant, equipment and supplies.



Part of Logan Lake in winter, the carefully planned community built to house Lornex employees and others in the area, has most of the conveniences associated with larger towns. These include a shopping plaza, hotel, single family dwellings, townhouses, recreation centre and even a rodeo corral.

Young Logan Lakers are coached in the fundamentals of hockey in community's new recreation centre.

Recreation centre, costing $1.1 million, provides facilities for sports year round.

Helicopter services drill crew at zinc prospect in North-West Territories in company's expanding exploration program for new ore deposits.

Exploration

Exploration expenditures by Rio Algom and its subsidiaries, including expenditures on the Sage Creek coking coal and the Lac Roberge asbestos prospects, were $6,198,000 in 1975 compared with $5,143,000 in the previous year. The increased expenditure reflects the continuation of long term exploration programs in the search for new orebodies in Canada and the United States. Sponsorship of programs carried out by independent organizations in Canada and the United States has been continued.

As a result of the work carried out in 1975 and in prior years a number of properties in Canada and the United States have been identified as prospective. More detailed work will be carried out on these properties in 1976 in addition to an expansion of exploration activities in other areas.

Rio Algom has not carried on any extensive exploration for uranium in Canada since March, 1970 when the Federal Government announced its intention to limit foreign ownership in the Canadian uranium industry; however, work has been continued on uranium properties in which Rio Algom then had an interest. An active search for uranium prospects has continued in the United States.

Because of the uncertainty caused by legislation in British Columbia relating to royalty, taxes and the effect of a number of discretionary regulations, work in that province, which is otherwise regarded as an attractive prospective area, has been curtailed.

During the year investigative programs were continued for the purpose of determining the feasibility of developing for production the Sage Creek coking coal prospect located in southeastern British Columbia. Work carried out included additional drilling to further delineate the coal deposits, bulk sampling for market and testing purposes, preliminary engineering, matters relating to the environment, and preliminary economic and feasibility studies. These activities will be continued in 1976.

Investigations under a working option on the Lac Roberge asbestos property in northwestern Quebec continued during the year mainly with regard to market studies and economic evaluations.

Research and Development

In 1975 research and development activities were mainly directed to developing improved milling processes which

might be incorporated in the expansion of the Quirke mill and in the additional milling facilities that will be required to meet existing and anticipated delivery requirements. Programs related to improvement in underground working conditions were continued including more effective control of Quirke mine ventilation. A ventilation monitoring system is being developed which is capable of expansion to cover the whole mine and to monitor a diverse number of environmental factors.

Employee Relations

At December 31, 1975 there were 1,879 employees engaged in mining operations of whom 1,347 were engaged in production and 484 were engaged in executive, technical, administrative or clerical functions and 48 were engaged in exploration activities.

Labour contracts in respect of mining operations are in effect in the Elliot Lake area for hourly rated employees until October 15, 1978; for operating engineers until April 25, 1976 and the contract for office and technical employees which expires on February 29, 1976 is presently being re-negotiated. At the Lisbon mine the contract which expired on December 31, 1975 was re-negotiated and the new contract is in effect until February 28, 1979. At the Lornex mine contracts are in effect for hourly rated and office and technical employees until June 30, 1976.

Other than brief work stoppages at Elliot Lake and at the Lornex mine there were no unusual difficulties in labour relations and they are considered to be good. Consistent with the pattern followed in the mining industry in 1975, increases in salaries and wages were granted earlier and in greater amounts than those provided for in union agreements because of inflationary pressures and a shortage of experienced miners and skilled tradesmen.

The number of trainees enrolled in the course to qualify as miners established at Elliot Lake in 1973 increased in 1974 and again in 1975. To meet the manpower needs of an expanded operation the number of trainees will be increased still further in 1976 and future years. A similar course established at the Lisbon mine in 1974 is providing a satisfactory number of graduates.

A Royal Commission was appointed in September, 1974 by the Government of Ontario to conduct public hearings on health and safety in the Ontario mining industry including Elliot Lake. Rio Algom submitted briefs to the hearings held by the Commission. The hearings have been completed and it is expected that the report of the Commission will be published by mid-1976.

At the Sage Creek coal prospect in south-eastern British Columbia, the company continued to test the property's potential for development and to determine ways to fully protect the environment should the prospect be developed.

Drilling in photo (above), and adit being driven in hillside in photo (below) are part of the company's thorough investigation of the Sage Creek coal prospect.

STEEL

Earnings from specialty and stainless steel operations before providing for income taxes were $16,323,000 compared to $34,516,000 in the record 1974 year. Total sales, including metal products purchased from others by the Atlas Alloys metal service centre for resale, amounted to $218,588,000 compared to $225,753,000 last year.

ATLAS STEELS

Marketing and Distribution

The deterioration in the world wide demand for high alloy bar and stainless flat rolled steels, which began in the fourth quarter of 1974 continued and accelerated in 1975. This decrease in demand coupled with liquidation of inventory positions by service centre and end-use customers resulted in a major decrease in both the tonnages sold and the dollar sales. The total order backlog declined sharply during the first half of the year and did not improve by year end. Under these circumstances it was not possible to maintain profit margins on most of the product range.

1975 demand for Atlas type products for capital expenditure projects in the chemical and petro-chemical industries and for nuclear power plants remained relatively strong as a result of previously commenced programs. Automotive and consumer product industries were somewhat depressed during the period.

Manufacturing

Production of most specialty product lines declined at the Welland plant, however, production of low alloy bar products was maintained at relatively satisfactory levels during the year.

The Tracy plant manufactures stainless flat rolled products and, primarily because of the reduction of inventory positions by customers, depressed exports and reduced demand by the automotive industry this plant operated at approximately 60% of capacity in 1975.

Rapid escalation in the cost of labor, raw materials and energy continued and substantially exceeded the cost reductions achieved from cost control programs and new and

Atlas Steels took a giant step forward in 1975 to modernize and refurbish the company's Welland plant operations. Photo (Top) shows the new $22.5 million melt shop nearing completion along with the smaller "baghouse" anti-pollution facility which will "vacuum clean" fumes from the melting operation so as to make the total operation pollution free. Melting trials are expected to begin in 1976 with full operations to start in early 1977. When the new shop goes into operation, Atlas will have one of the world's most modern steelmaking operations.

Shell for one of two 60-ton electric arc furnaces on its way for installation in new Welland melt shop.

This new computer centre at Atlas Steels, Welland, fulfills all customary data processing and management information system needs. It also provides process guidance in existing melting and secondary steelmaking operations. It will play a vital role in the new melt shop when it comes on stream in late 1976.

ongoing profit improvement programs initiated to increase manufacturing efficiency, quality, and utilization of raw materials.

Net capital expenditures of $17,153,000 in 1975 were principally related to the Company's long term program for improvement in quality and reductions in operating costs. The major expenditure in 1975 was for the new steel melting facility at the Welland plant on which construction began in February, 1975 and which is scheduled for start up late in 1976. This facility will provide additional capacity and reduce production costs. It will be equipped with a highly effective air pollution control system.

In compliance with environmental requirements revisions to the Welland plant sanitary sewer system have been completed and the first phase of revisions to the water reclaim system is scheduled for completion in mid-1977 at which time work on the second phase will begin. The installation of a new air pollution control system for the Tracy plant steel melting facility will be completed in July, 1976. Further work is being done with regard to the protection and improvement of the environment.

Research and Development

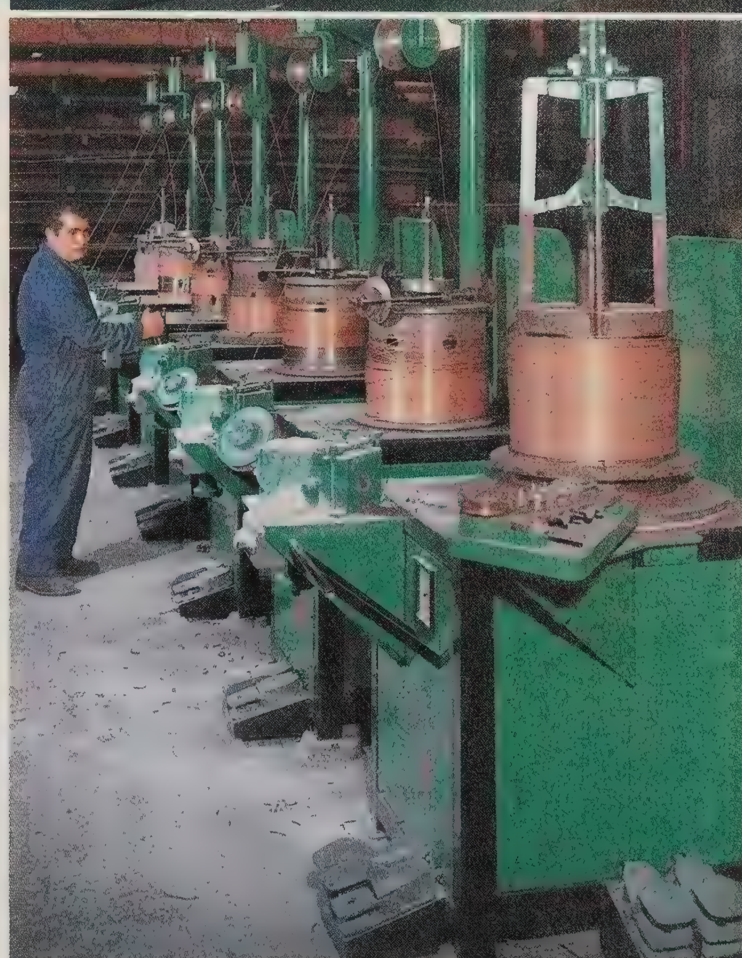
During 1975 research and development continued to be directed to process improvements, operating cost reductions, improved product yield and utilization of lower cost materials.

ATLAS ALLOYS

Sales of the Atlas Alloys metal service centre distribution group in 1975 were marginally lower than those achieved during the record year of 1974 but were higher than those attained in any year prior to 1974.

In Canada sales were relatively strong in those product lines related to the capital expenditure programs being carried out by the chemical, petro-chemical and nuclear power industries. Sales of other product lines were lower because of reduced economic activity and a concerted effort by end users to reduce their inventory positions. During the year equipment was added to improve product processing capability and facility expansions were completed at the Windsor, Edmonton and Winnipeg service centres.

Sales by Atlas Alloys in the United States reached record levels despite the economic uncertainty that prevailed throughout most of the year. This increase reflected the continued strengthening of the United States marketing organization, a broadened product mix, and the increased processing capability and efficiency of the new service



Atlas Alloys, which markets specialty metals throughout much of the world, has the necessary equipment to meet customer requirements. Here a "cut-to-length" line at the Etobicoke service centre in Metro Toronto flattens and cuts coiled sheet to lengths up to 50 feet.

Wire drawing equipment in Melbourne, Australia service centre reduces "bar" wire to desired diameter.

centre in the Cleveland area which was occupied in January, 1975.

Sales volume in the United Kingdom declined partly due to the continued redirection of marketing activities towards traditional service centre type business as opposed to high volume accounts where lower margins apply. During the year a new warehouse facility was established in the Leeds area where much of the heavy fabricating activities of the country are located. Towards the end of the year there were encouraging signs that activity was strengthening.

In Australia the market was weak for most of the year. The wire-drawing facility expanded in 1974 operated well below capacity and this lost production could not be offset by increases in other product areas. During the year the Sydney service centre was relocated in a larger more efficient facility and a sales office was opened at Brisbane.

Record sales levels were achieved in Mexico and activity remained strong through the year. Facility improvements were made during the year particularly in material handling and the processing area.

Employee Relations

At December 31, 1975 there were 3,118 employees engaged in steel operations of whom 1,861 were engaged in production, 621 in sales and marketing and 636 in executive, administrative or clerical functions. There were only minor work stoppages during the year and it is considered that relations with steel operation employees continued to be good.

Labour contracts in respect of steel operations are in effect at the Welland plant for office and technical employees until August 31, 1976 and the contract for hourly rated employees which expired on February 16, 1976 is being re-negotiated. At the Tracy plant the contract for hourly rated employees which expired on November 30, 1975 and the contract for office and technical employees which expired on January 31, 1976 are being re-negotiated. Because of inflationary pressures it was, as in the Canadian steel industry generally, necessary in 1975 to grant increases in salaries and wages earlier and greater than those provided for in labour contracts.

Auditors' Report

To the Shareholders of Rio Algom Limited:

We have examined the consolidated statement of financial position of Rio Algom Limited as at December 31, 1975 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In accordance with the requirements of Section 212 of the Companies' Act of British Columbia in our opinion due provision has been made for minority interests.

Toronto, Canada
February 27, 1976

COOPERS & LYBRAND
Chartered Accountants

Accounting Policies

The principal accounting policies followed by Rio Algom Limited and its subsidiaries are summarized hereunder to facilitate a comprehensive review of the financial statements contained in this report.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Lornex Mining Corporation Ltd. and all other significant subsidiary companies.

The accounts in foreign currencies are stated in Canadian dollars on the following basis:

Current assets and current liabilities at year-end exchange rates; all other assets and any related depreciation and long-term liabilities at rates in effect at time of transactions; and revenues and expenses (other than depreciation) at average rates for the year.

VALUATION OF INVENTORIES AND CONCENTRATES AWAITING SHIPMENT

Inventories of steel, other metals, raw materials and supplies are valued at the lower of cost and market. Cost is determined generally at average or standard costs which approximate actual. Market for steel and other metals is net realizable value and for raw materials and supplies is replacement cost. Intercompany profits have been excluded from these inventories.

Concentrates awaiting shipment are valued at estimated realizable metal prices.

DEPRECIATION AND AMORTIZATION

The following accounting policies are being followed in connection with the depreciation charges of the Company:

(i) Mining fixed assets:
Depreciation is being provided on fixed assets on the basis of the shorter of physical life or economic life, as estimated for the individual mining units, the economic life to be adjusted from time to time as conditions warrant.

(ii) Steel fixed assets:
Fixed assets are being depreciated on the straight line method based on engineering estimates of the lives of the assets at the following rates:

Buildings	4% per annum
Plant and equipment	6⅔% per annum

Mining properties and preproduction expenditures are being amortized on the same basis as depreciation is provided on mining fixed assets.

Excess of acquisition cost over adjusted book value of Atlas Steels assets is being amortized on a straight line basis over a 20 year period which will end in 1982.

Debenture discount and financing expenses are being amortized on the debentures outstanding method over the life of the Sinking Fund Debentures Series B of the Company, which mature on July 15, 1995.

CAPITALIZATION OF INTEREST

The Company follows the policy of capitalizing net interest costs during construction or development only on those projects for which funds have been borrowed; this would normally apply only to such major new projects from beginning of construction or development up to the commencement of commercial operations. In these cases interest earned on borrowed funds during the development and construction period is applied against the interest expense to reduce the amount of interest costs capitalized. Such net interest costs are capitalized because it is considered that they would not have been incurred if the project had not been undertaken and therefore are properly part of the capital cost of the total project.

DEVELOPMENT PROJECTS AND EXPLORATION

Development projects are carried forward as assets while the projects are considered to be of value to the Company. All exploration expenses have been written off.

INCOME TAXES

Income taxes are based on reported income which differs from taxable income. Differences arise when some revenues and costs, principally depreciation and mine development expenses, are reflected in different time periods for the financial statements than for income tax purposes. The tax effect of these timing differences is recognized in the accounts as deferred income taxes. This method is also being followed by Lornex.

Rio Algom Limited

Consolidated Statement of Financial Position

DECEMBER 31, 1975

($ 000's omitted)

	1975	1974
CURRENT ASSETS:		
Cash and short term deposits	**$ 77,405**	$ 27,016
Receivables and prepaid expenses	**84,345**	71,241
Inventories and concentrates awaiting shipment (note 2)	**144,494**	152,052
Total	**306,244**	250,309
Less:		
CURRENT LIABILITIES:		
Bank loans	**3,639**	9,069
Accounts payable and accrued liabilities	**52,394**	45,868
Income and mining taxes and government royalty	**19,472**	33,267
Long term debt due within one year (note 5)	**14,973**	7,081
Total	**90,478**	95,285
WORKING CAPITAL	**215,766**	155,024
Plant and equipment, less depreciation (note 3)	**175,037**	160,823
Mining properties and preproduction expenditures, less amortization (note 4)	**47,000**	51,617
Excess of acquisition cost over adjusted book value of Atlas Steels assets, less amortization	**7,324**	8,371
Debenture discount and financing expenses, less amortization	**1,061**	—
Investment in affiliated company, at cost	**4,449**	1,191
TOTAL ASSETS LESS CURRENT LIABILITIES	**450,637**	377,026
Deduct:		
Long term debt (note 5)		
Rio Algom Limited	**70,934**	26,000
Subsidiary companies	**17,534**	37,125
Deferred income and mining taxes	**36,343**	23,315
Minority shareholders' interests in subsidiary company	**21,855**	27,790
	146,666	114,230
EXCESS OF ASSETS OVER LIABILITIES	**$ 303,971**	$ 262,796
Ownership evidenced by		
Capital stock (note 6)	**$ 110,378**	$ 84,753
Contributed surplus	**19,705**	20,009
Retained earnings	**173,888**	158,034
Total	**$ 303,971**	$ 262,796

Approved on behalf of the Board:

J. H. SMITH, Director   R. D. ARMSTRONG, Director

Consolidated Statement of Earnings

YEAR ENDED DECEMBER 31, 1975

($ 000's omitted)

	1975	1974
REVENUE:		
Revenue from mine production and sales of steel and other products	**$ 367,382**	$ 390,571
EXPENSES:		
Cost of mine production and steel sales	**232,301**	219,855
Selling, general and administration	**38,775**	37,050
Interest (net) (note 9)	**3,827**	3,356
Depreciation and amortization (note 10)	**20,419**	20,958
Exploration	**6,198**	5,143
	301,520	286,362
	65,862	104,209
INCOME AND MINING TAXES AND GOVERNMENT ROYALTY		
Current	**22,545**	32,819
Deferred	**13,075**	17,800
	35,620	50,619
Earnings before adjustment for minority interests in subsidiary company	**30,242**	53,590
Minority interests in profits of subsidiary	**210**	9,766
NET EARNINGS FOR THE YEAR	**$ 30,032**	$ 43,824
EARNINGS PER COMMON SHARE	**$ 2.28**	$ 3.52

Consolidated Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1975

($ 000's omitted)

	1975	1974
BALANCE, beginning of year	**$ 158,034**	$ 127,185
Add:		
Net earnings for the year	**30,032**	43,824
	188,066	171,009
Deduct:		
Dividends on preference shares	**688**	714
Dividends on common shares at the rate of $1.00 per share	**13,490**	12,261
	14,178	12,975
BALANCE, end of year	**$ 173,888**	$ 158,034

Consolidated Statement of Contributed Surplus

YEAR ENDED DECEMBER 31, 1975

($ 000's omitted)

	1975	1974
BALANCE, beginning of year	**$ 20,009**	$ 19,797
Add:		
Profit on purchase of preference shares for cancellation	**104**	212
	20,113	20,009
Deduct:		
Expense of common share capital issue (net of income tax)	**408**	–
BALANCE, end of year	**$ 19,705**	$ 20,009

Consolidated Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1975

($ 000's omitted)

SOURCE OF FUNDS:	1975	1974
Earnings before adjustment for minority interests in subsidiary company	**$ 30,242**	$ 53,590
Add items included in earnings not involving current outlay of funds:		
Depreciation, amortization and other charges (net)	**21,562**	21,830
Deferred income and mining taxes	**13,075**	17,800
Funds provided by operations	**64,879**	93,220
Issue of common shares (net of issue expenses)	**25,297**	–
Issue of sinking fund debentures (net of issue expenses)	**48,905**	–
Issue of common shares under stock option plan	**59**	61
Housing loans of subsidiary (net)	**87**	–
	139,227	93,281
DISPOSITION OF FUNDS:		
Expenditures (net) for plant and equipment, mining properties and preproduction	**29,506**	14,261
Dividends on preference shares	**688**	714
Dividends on common shares	**13,490**	12,261
Purchase of minority shareholders' interests in subsidiary company	**5,684**	819
Purchase of preference shares for cancellation	**166**	523
Investment in affiliated company	**3,258**	1,191
Reduction of long term debt:		
Rio Algom Limited debentures	**5,066**	1,712
Bank loans of subsidiaries	**3,750**	30,575
8¾% Notes of subsidiary	**16,877**	9,453
Housing loans of subsidiary (net)	**–**	177
	78,485	71,686
INCREASE IN WORKING CAPITAL	**60,742**	21,595
Working Capital, beginning of year	**155,024**	133,429
Working Capital, end of year	**$ 215,766**	$ 155,024

Notes to Consolidated Financial Statements

DECEMBER 31, 1975

1. ACCOUNTING POLICIES

The information on page 19 presents a summary of certain accounting policies and is an integral part of these financial statements.

2. INVENTORIES AND CONCENTRATES AWAITING SHIPMENT

	1975	1974
Mining operations –		
Mine supplies	**$ 12,445,732**	$ 11,756,111
Concentrates awaiting shipment	**61,718,865**	64,415,284
	74,164,597	76,171,395
Steel operations –		
Steel, other metals, raw materials and supplies	**70,329,608**	75,880,031
	$144,494,205	$152,051,426

3. PLANT AND EQUIPMENT

	1975	1974
Buildings, machinery and equipment and construction in progress, at cost	**$345,351,852**	$319,265,059
Less accumulated depreciation	**172,019,084**	159,814,264
	173,332,768	159,450,795
Land, at cost	**1,703,916**	1,372,829
	$175,036,684	$160,823,624

Plant and equipment includes $57,323,423 in respect of assets of mines presently idle which have been fully depreciated.

4. MINING PROPERTIES AND PREPRODUCTION EXPENDITURES

	1975	1974
Mining properties, at cost	**$ 9,365,875**	$ 9,195,373
Less accumulated amortization	**6,980,828**	6,647,636
	2,385,047	2,547,737
Preproduction expenditures, at cost less amortization	**44,615,349**	49,069,276
	$ 47,000,396	$ 51,617,013

5. LONG TERM DEBT

(a) Rio Algom Limited	1975	1974
6¾% Sinking Fund Debentures Series A, maturing on April 1, 1983	**$ 20,934,000**	$ 26,009,000
Less portion included in current liabilities	* –	9,000
Long term portion	**20,934,000**	26,000,000
11½% Sinking Fund Debentures Series B, maturing on July 15, 1995	**50,000,000**	–
	$ 70,934,000	$ 26,000,000

A meeting of the Series A Debentureholders held on May 2, 1975 approved an increase in the interest rate from 5¾% to 6¾% per annum effective April 1, 1975 and an increase to $3,000,000 in the annual sinking fund payments in each of the years 1975 to 1982 inclusive.

The Company is required to make sinking fund payments for the retirement of the Sinking Fund Debentures in principal amounts as follows:

Series A – $3,000,000 on October 1, 1976 to 1982 inclusive; and
Series B – $2,500,000 on July 15, 1981 to 1994 inclusive.

During the year $5,075,000 principal amount of Series A debentures was purchased for cancellation; $1,009,000 was applied to satisfy the increased 1975 requirement, $3,000,000 to satisfy the 1976 requirement and $1,066,000 has been applied toward the 1977 requirement.

(b) Subsidiary companies:

	1975	1974
(i) Lornex Mining Corporation Ltd.		
8¾% Notes	**$11,223,243**	$22,699,346
Less portion included in current liabilities	***11,223,243**	5,822,000
Long term portion	**—**	16,877,346
8½% Series A Income Debentures due December 31, 1985	**7,996,000**	7,996,000
Housing loans	**267,648**	181,248
Accrued interest on Income Debentures	**3,769,699**	2,820,568
	12,033,347	27,875,162
(ii) Rio Algom Corporation bank loans	**9,250,000**	10,500,000
Less portion included in current liabilities	***3,750,000**	1,250,000
Long term portion (1975-$5,500,000 U.S., 1974-$9,250,000 U.S.)	**5,500,000**	9,250,000
Total – subsidiary companies	**$17,533,347**	$37,125,162
*Total long term debt due within one year	**$14,973,243**	$ 7,081,000

Under the terms of the Lornex financing agreement 90% of the Lornex net operating profit as defined is to be applied to repayment of the 8¾% Notes.

The 8½% Lornex Income Debentures and the accrued interest thereon may not be paid until the required interest and principal repayments have been made and certain other conditions have been met with respect to the 8¾% Notes. The principal amount of the Income Debentures is to be repaid by way of annual sinking fund payments after the 8¾% Notes have been paid in full.

The Rio Algom Corporation bank loans are repayable in seven consecutive quarterly instalments of $312,500 U.S. each due March 31, 1976 through September 30, 1977, and one final instalment of $7,062,500 U.S. due December 31, 1977. However, in addition, prepayments are required to be made on April 30, 1976 and April 30, 1977 in amounts approximating Rio Algom Corporation's cash flow from operations (as defined) for the fiscal years 1975 and 1976 respectively. The amount due on April 30, 1976 is $2,500,000 U.S. and will be applied to reduce the instalment of $7,062,500 U.S. due December 31, 1977. The interest rate is the First National City Bank base rate plus ¾% on amounts due through September 30, 1977 and base rate plus 1% on amounts due December 31, 1977; at December 31, 1975 the base rate was 7¼%.

6. CAPITAL STOCK

Authorized:

467,420 First Preference Shares with a par value of $100 each, issuable in series
15,000,000 Common Shares without par value

Issued:	1975	1974
117,420 $5.80 Cumulative Redeemable First Preference Shares Series A (120,118 at December 31, 1974) (redeemable at premiums ranging from 3¼% to 1%)	**$ 11,742,000**	$ 12,011,800
13,489,522 Common Shares (12,261,139 at December 31, 1974)	**98,636,077**	72,741,344
	$110,378,077	$ 84,753,144

(i) During the year:
   (a) 1,226,113 Common Shares were issued for $25,835,944 cash under the terms of a rights offering;
   (b) 2,270 Common Shares were issued for $58,789 cash under a Stock Option Plan; and
   (c) 2,698 First Preference Shares were purchased for cancellation; the Company's 1975 and 1976 obligations referred to in Note 7 (iii) below have been fulfilled.

(ii) At December 31, 1975, 85,775 Common Shares were reserved under a Stock Option Plan. Outstanding options have been granted to employees to purchase 61,025 Common Shares at prices varying from $24.64 to $28.35 per share; these options expire on varying dates from March 30, 1977 to April 13, 1983.

(iii) There are restrictions on the payment of dividends in the provisions attaching to the Preference Shares and the Company's trust indentures relating to the Series A and Series B Debentures.

7. COMMITMENTS AND CONTINGENT LIABILITIES

The following commitments and contingent liabilities were outstanding at December 31, 1975:

(i) Estimated total cost to complete capital projects was approximately $118,805,000 (committed $14,381,000).

(ii) Minimum annual rentals upon real property with original lease terms extending beyond December 31, 1978, amounted to approximately $990,000.

(iii) The Company is obligated on April 1 in each year to set aside $300,000 as a retirement fund, to be used to purchase or redeem Preference Shares;

(iv) Unfunded liability for pension funds at December 31, 1975 was estimated at $7,000,000, including liabilities for certain past-service pension benefits pursuant to labour agreements that are subject to Anti-Inflation Board approval. This is presently being funded over a period of 15 years as follows:
   (i) $1,084,000 per annum for 1976 to 1979,
   (ii) $469,000 per annum for 1980 to 1988, and
   (iii) $250,000 per annum for 1989 and 1990; and

(v) The Company is subject to the regulatory controls established under the Canadian government's Anti-Inflation Act, which became effective October 14, 1975. Further clarification is required before the potential impact on the Company's results can be fully assessed. Preliminary interpretations of the regulations indicate that the effect on the Company's results for the period October 14, 1975 to December 31, 1975 would be minimal. The regulations pertaining to dividends permit the Company to continue the declaration and payment of dividends during the period October 14, 1975 to October 13, 1976 at the current rate; regulations applicable beyond October 13, 1976 have not been issued.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year ended December 31, 1975 the aggregate direct remuneration paid or payable by the Company and its consolidated subsidiaries to the Directors and Senior Officers of the Company was $867,217.

9. INTEREST (NET)

	1975	1974
Interest on demand bank loans	**$1,276,062**	$1,377,566
Interest on long term debt	**7,683,300**	7,525,905
Interest capitalized	**(930,000)**	–
Investment and other income	**(4,202,398)**	(5,547,729)
	$3,826,964	$3,355,742

10. DEPRECIATION AND AMORTIZATION

This consists of the following provisions:

	1975	1974
Plant and equipment	**$14,094,016**	$14,757,936
Mining properties and preproduction expenditures	**5,277,944**	5,153,177
Excess of acquisition cost over adjusted book value of Atlas Steels assets acquired	**1,047,100**	1,047,100
	$20,419,060	$20,958,213

Supplementary Information

Five Year Review

Rio Algom Limited and Subsidiaries

PRODUCTION DATA	**1975**	1974	1973	1972	1971
Uranium in concentrate (pounds-000's)	**5,806**	6,194	6,166	5,397	4,492
Copper in concentrate (pounds-000's)	**116,811**	144,156	129,800	52,680	37,326
Molybdenum in concentrate (pounds-000's)	**3,084**	4,038	3,481	581	–
Steel (tons-000's)	**161**	189	182	159	140
FINANCIAL DATA: ($ 000's)					
Revenue:					
Mining Operations					
Uranium	**$ 93,416**	$ 68,232	$ 53,887	$ 41,950	$ 31,937
Copper and associated metals	**55,378**	96,586	97,641	21,626	14,920
	148,794	164,818	151,528	63,576	46,857
Steel Operations					
Stainless steels	**100,470**	118,283	74,400	61,300	57,965
Machinery steels	**42,674**	39,245	28,000	22,900	17,658
Other steels and metals	**75,444**	68,225	60,992	48,389	45,549
	218,588	225,753	163,392	132,589	121,172
Total revenue	**367,382**	390,571	314,920	196,165	168,029
Investment and other income	**4,202**	5,548	2,438	683	580
	371,584	396,119	317,358	196,848	168,609
Cost of mine production and steel sales	**232,301**	219,855	172,475	136,168	122,381
Selling, general and administration	**38,775**	37,050	30,332	21,743	19,497
Interest expense (note 2)	**8,029**	8,904	11,840	4,733	2,307
Depreciation and amortization	**20,419**	20,958	20,853	12,943	10,809
Exploration	**6,198**	5,143	3,125	2,447	2,385
	305,722	291,910	238,625	178,034	157,379
Earnings before taxes and minority interests (note 3)					
– mining	**49,539**	69,693	65,883	17,424	10,899
– steel	**16,323**	34,516	12,850	1,390	331
– total	**65,862**	104,209	78,733	18,814	11,230
Income and mining taxes	**35,620**	50,619	12,353	2,935	1,943
	30,242	53,590	66,380	15,879	9,287
Minority interests in profits (losses) of subsidiaries	**210**	9,766	14,320	(429)	(411)
Net earnings	**$ 30,032**	$ 43,824	$ 52,060	$ 16,308	$ 9,698
Earnings per share of common stock	**$ 2.28**	$ 3.52	$ 4.19	$ 1.27	$ 0.73
Dividends paid on common stock (000's)	**$ 13,490**	$ 12,261	$ 8,577	$ 4,900	$ 4,900
Per share of common stock	**$ 1.00**	$ 1.00	$ 0.70	$ 0.40	$ 0.40
Common shares outstanding (000's)	**13,490**	12,261	12,259	12,250	12,250
Equity per share of common stock	**$ 21.66**	$ 20.45	$ 17.92	$ 14.41	$ 13.54
Number of shareholders	**12,700**	13,000	13,500	14,700	16,500
Capital expenditures (000's)	**$ 29,506**	$ 14,261	$ 9,251	$ 33,218	$ 89,734
Number of employees	**5,144**	5,362	5,450	5,302	4,860

NOTES:

(1) Lornex and Lisbon mines commenced operations October 1, 1972 and the Poirier mine ceased operations June 27, 1975.

(2) The amounts shown above for interest expense in 1975, 1972 and 1971 do not include interest capitalized in the amounts of $930,000, $5,729,000 and $3,457,000 respectively.

(3) In arriving at the earnings of the mining and steel operations before taxes and minority interests, parent company investment and other income, interest costs and general and administrative expenses have been allocated to the mining and steel operations on appropriate bases.

Management Discussion and Analysis

In 1972 earnings before taxes and minority interests from mining operations increased by $6,525,000 mainly due to higher uranium production and improved uranium sales mix. Pre-tax earnings from steel operations increased $1,059,000 due to lower costs, including staff reduction, and product rationalization programs whereby less profitable product lines were reduced or eliminated. Interest and depreciation and amortization charges were increased as a result of Lornex and Lisbon mines commencing operations on October 1, 1972. The increased taxes were mainly the result of higher earnings in mining operations.

In 1973 earnings from mining operations before taxes and minority interests increased by $48,459,000 primarily because of the contribution of the Lornex copper-molybdenum mine which was not in production in the first three quarters of 1972 and higher copper and uranium prices. Pre-tax earnings of steel operations improved by $11,460,000 due mainly to operational improvements, strong demand for stainless and specialty steels and to increases in selling prices on a broad range of products. Income and mining taxes increased by $9,418,000, most of which resulted from the first full year's operation of Lornex. Part of the increase was due to the Company's first provision for deferred Canadian income taxes in the amount of $2,800,000.

In total, earnings before taxes and minority interests in 1974 increased by $25,476,000 of which $3,810,000 occurred in mining operations and $21,666,000 in steel operations. Earnings from mining operations increased primarily because of higher uranium earnings and improved volume and grade at Lornex, largely offset by lower copper prices. Earnings from steel operations improved mainly due to increased volume, improved product mix and higher selling prices. These improvements were more than offset by an increase of $38,266,000 in income and mining taxes, including government royalty, partly due to increased earnings before taxes; these taxes were proportionately much higher in 1974 primarily because of higher provision by Rio Algom for income tax, provision by Lornex for British Columbia government royalty effective January 1, 1974, the expiry of the Lornex tax exempt period on December 31, 1973, the introduction of increased Ontario mining taxes effective April 9, 1974, and the disallowance, for federal tax purposes, of provincial mining taxes and royalties effective May 6, 1974.

In 1975 earnings before taxes and minority interests declined by $38,347,000 of which $20,154,000 occurred in mining operations and $18,193,000 in steel operations. Earnings from mining operations decreased due to lower copper prices and a reduction in operating level at Lornex resulting from the depressed world-wide demand for copper; this was modified but not completely offset by a substantial increase in earnings from underground uranium mines. In the steel operations the deterioration in market conditions which had begun to manifest itself in the latter part of 1974 continued and accelerated in 1975. The aforementioned declines in operational earnings were offset somewhat by reductions of $14,999,000 and $9,556,000 in the provisions for income and mining taxes and the minority shareholders' interests in the profits of Lornex respectively.

Price Range of Common Shares and Dividends Paid

The following table shows the high and low prices for Rio Algom Common Shares on The Toronto Stock Exchange and dividends paid on these shares by the Company.

	1975	1974
First Quarter	$26 - 19	$37-2/8 - 33-2/8
Second Quarter	30-6/8 - 22-4/8	33-3/8 - 24-4/8
Third Quarter	34-2/8 - 28-2/8	29-6/8 - 20-6/8
Fourth Quarter	31 - 27-6/8	24 - 18-7/8

Dividends paid per share: June 27, 1974 — 50¢; December 30, 1974 — 50¢.
July 30, 1975 — 50¢; December 30, 1975 — 50¢.

RIO ALGOM OPERATIONS AND AFFILIATES

Canada

MINING

Head Office – Toronto, Ontario
New Quirke, Elliot Lake, Ontario
Lornex Mining Corporation Ltd., Vancouver, B.C., Property at Logan Lake, B.C.

EXPLORATION

Rio Tinto Canadian Exploration Limited, (Riocanex)
Head Office – Toronto, Ontario
Branch and Field Offices – Vancouver, B.C., Kamloops, B.C., Truro, Nova Scotia

STEEL

Atlas Steels
Head Office – Welland, Ontario
Plants at Welland, Ontario and Tracy, Quebec

METAL DISTRIBUTION

Atlas Alloys
Head Office – Etobicoke, Ontario
Service Centres at Etobicoke, Winnipeg, Montreal, Windsor, Edmonton, Vancouver
Mesa Manufacturing – Calgary, Alberta

United States

MINING

Rio Algom Corporation,
Head Office – Wilmington, Delaware
Property at Moab, Utah

EXPLORATION

Rioamex, Division of Atlas Alloys Inc., Denver, Colorado

METAL DISTRIBUTION

Atlas Alloys Inc.
Head Office – Cleveland, Ohio
Service Centres at Valley View, Ohio and Detroit, Michigan

Overseas

METAL DISTRIBUTION

Atlas Alloys Limited, Dunstable, Beds., England
Atlas Steels (Australia) Pty. Limited, Melbourne, Australia
Aceromex-Atlas S.A., Mexico City, Mexico
Agents or Distributors in other countries

PRINCIPAL ASSOCIATES

Canada

Brinco Limited
One Westmount Square, Montreal, Quebec
Indal Limited
52 Arrow Road, Weston, Ontario

United Kingdom

The Rio Tinto-Zinc Corporation Limited
6 St. James's Square, London, SW1Y 4LD
RTZ Industries Limited
RTZ Pillar Limited
Cleveland House, 19 St. James's Square, London, SW1Y 4JG
AM & S Europe Limited,
1 Redcliffe Street, Bristol, BS99 7JS
Capper Pass Limited
Melton Works, North Ferriby, Yorkshire
RTZ Borax Limited
Borax House, Carlisle Place, London, SW1P 1H7

Australia & Papua New Guinea

Conzinc Riotinto of Australia Limited
Australian Mining & Smelting Limited
Hamersley Holdings Limited
IOL Petroleum Limited
Mary Kathleen Uranium Ltd.
Comalco Limited
95 Collins Street, Melbourne, 3001, Victoria
Bougainville Copper Limited
Papua New Guinea

South Africa

Rio Tinto South Africa Limited
Palabora Mining Company Limited
Rossing Uranium Limited
70 Marshall Street, Johannesburg

United States of America

United States Borax & Chemical Corporation
3075 Wilshire Boulevard, Los Angeles, California 90005

Japan

Rio Tinto-Zinc (Japan) Limited
Shin Tokyo Building,
3-1 Marunouchi, 3 Chome, Chiyoda-Ku, Tokyo 100

MISCELLANEOUS CORPORATE INFORMATION

Head Office
120 Adelaide St. West, Toronto, Ontario, Canada
M5H 1W5

Principal Bankers
Canadian Imperial Bank of Commerce, Toronto
The Toronto-Dominion Bank, Toronto
First National City Bank, New York

Solicitors
Fasken & Calvin, Toronto
Fried, Frank, Harris, Shriver & Jacobson, New York

Auditors
Coopers & Lybrand, Chartered Accountants, Toronto

Registrars and Transfer Agents
Common Shares
Canada Permanent Trust Company,
Toronto, Montreal, Winnipeg, Regina, Calgary
and Vancouver

The Canadian Bank of Commerce Trust
Company, New York

Preference Shares
Canada Permanent Trust Company,
Toronto, Montreal, Halifax, Winnipeg
and Vancouver

Shares Listed
Common Shares
Toronto Stock Exchange, Toronto
Montreal Stock Exchange, Montreal
American Stock Exchange, New York

Preference Shares
Toronto Stock Exchange, Toronto
Montreal Stock Exchange, Montreal

Form 10-K Annual Report
The Company's Form 10-K annual report for 1975 to the United States Securities and Exchange Commission will be available after April 30, 1976 on written request to the Secretary of the Company.

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